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Poland's Prospects Over the Next 12 to 18 Months

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Special National Intelligence Estimate
Memorandum to Holders



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SNIE 12.6-82
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MEMORANDUM TO HOLDERS

SNIE 12.6-82

POLAND'S PROSPECTS OVER THE NEXT 12 TO 18 MONTHS

Information available as of 30 August 1982 was
used in the preparation of this Estimate.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organization of the Department of State.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

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KEY JUDGMENTS

There has been little change in the internal political situation since the issuance of SNIE 12.6-82 in March 1982. The Jaruzelski regime tried but has not succeeded in gaining popular acceptance and continues to rule through fear and intimidation. It has not shown any willingness to seek a genuine political accommodation with either the Polish people or their spokesmen.

Within the ruling elite, Jaruzelski has shown bureaucratic skill and an ability to obtain Moscow's implicit support in order to solidify his own position. Although his actions have preserved what could be saved of the traditional Communist system of rule, they have brought little succor to the party per se. It remains moribund. Society at large remains opposed to the regime but so far has limited its resistance largely to passive resistance. Of its two institutional pillars, the Church, under Glemp's leadership, is placing greater emphasis on calm than on support for Solidarity; the latter has established an underground Temporary Coordinating Committee (TKK) but is still groping for an effective strategy. For now it seems to have settled on brief job actions, peaceful demonstrations, and other forms of protest as well as the threat of a general strike as a means of bringing pressure on the regime.

Solidarity's showing on 31 August probably failed to convince Jaruzelski of the need for compromise. The leaders of Solidarity and the regime will now be debating future tactics, and hardliners on both sides may now argue for more aggressive action.

The union's leaders will cite the turnout of demonstrators against overwhelming odds as a moral victory. The regime has claimed that 65,000 people took part, 4,050 persons were detained, three demonstrators were killed and 63 injured, and 148 policemen were injured. But Solidarity has paid a high price in the two weeks of demonstrations:

- The authorities seized underground printing presses and reportedly arrested scores responsible for underground literature. The founder of Radio Solidarity was also arrested.
- Many activists were presumably spotted in connection with the demonstrations and will be apprehended.

Solidarity leaders will be under pressure to come up with more effective ways to force concessions from the regime. Their prospects are

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not bright. For the next few months, the union will have to concentrate on creating a structure less vulnerable to penetration by the security services. Radicals probably will want to keep the heat on. Some may press for more violent forms of resistance. Although there has been no clear-cut trend toward violence thus far, molotov cocktails have now been used for the first time. And the security services have shown they are not reluctant to use their weapons.

The demonstrations probably did nothing to shake Jaruzelski's conviction that time is on his side and that he can eventually wear down Solidarity's will to resist. He may be pressed by the security services to take an even tougher approach to prevent future demonstrations. They may encourage him to arrest more underground activists and possibly even to dissolve Solidarity altogether. If the direct and open challenges to his rule fade away, Jaruzelski may well improve the cosmetics of martial law (possibly even replacing it with less odious emergency powers) but is unlikely to change its substance.

Jaruzelski talks about economic reforms and has granted enterprises more flexibility to make decisions on production, employment, and investment. Widespread shortages and the inefficient approaches of ensconced managers have resulted in little, if any, changes from the centralized approach of the pre-Solidarity period.

The much vaunted turn to the East has produced little increase in assistance, a situation which is unlikely to change in view of the widespread economic problems in CEMA. Economic interaction with the West will continue to be limited by Warsaw's inability to obtain necessary financing, including debt relief. As a result of domestic rigidity and the shortage of needed Western economic inputs, the economy is likely to stagnate at the mid-1970s level.

Of all the major actors in the Polish drama, the USSR has the most cause to be generally satisfied. Although eight months of martial law have not brought the Soviet headache over Poland to an end, Jaruzelski has performed a valuable service for the Kremlin by bringing a measure of stability to Poland, preserving a tolerable form of Communist rule, and relieving the USSR of having to use its own forces. Although Moscow cannot be satisfied with the state of the Polish Communist Party, it seems resigned to the party's current inactivity and willing to grant Jaruzelski a degree of tactical freedom—so long as he continues to satisfy the Soviets' strategic requirements on the fundamental issues of control and Poland's role in Warsaw Pact operations. This he is likely to do since there are no fundamental differences between him and the Soviets on these issues.

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The political stalemate between the Polish people and its rulers continues. It could be broken, however, by the intrusion of unpredictable events such as the recurrence of major strikes, the use of political terrorism by underground opposition forces, or an ill-considered move by an overconfident regime. On balance, however, we believe the most likely prospect is for a continuation of the present situation: rule from the top by a regime headed by Jaruzelski, with control over a dispirited population assured by the use of force.

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DISCUSSION

I. INTRODUCTION

1. The purpose of this Memorandum is to take a fresh reading of the Polish situation some eight months after the imposition of martial law and to look at the prospects for Polish actions and trends over the next year that might have ramifications for US policy.

2. Generally, the conclusions in SNIE 12.6-82 of 25 March 1982 have held up in light of Polish developments since then:

- Jaruzelski does not differ with the Soviets on the fundamental issues of control and Poland's role in Warsaw Pact operations.
- Martial law has effectively ruled out genuine political accommodation, and the national political stalemate continues.
- Economic output has stabilized at least temporarily but at a very low level, and the standard of living has fallen to the early-to-mid-1970s level.
- The Soviets are generally satisfied with Jaruzelski's actions, which have relieved them of the unpleasant prospect of imposing orderly force of arms.

3. Developments since March 1982, however, allow a more refined assessment of:

- Jaruzelski's tactics and what they reveal about his long-range intentions.
- The internal and external constraints which impinge on his actions.
- The popular mood and expectations concerning the Jaruzelski regime.
- The development of an underground Solidarity resistance movement.
- The role of the Catholic Church.
- The military and party establishments as the organs of rule and the security apparatus as the key instrument of control.

- The economic-financial prospects, including the impact of the Western sanctions and of the CEMA connection.

- Moscow's perception of the Polish situation and Jaruzelski, and how it is trying to influence both.

II. THE INTERNAL SITUATION

A. Jaruzelski's Strategy and Tactics

4. Jaruzelski's primary goal, which has overshadowed all others, remains that of the maintenance of control over the society at large. He has sought to project an appearance of calm and order, while moving quickly to maintain order in the country by stifling demonstrations as well as other expressions of dissent. This will probably hold true over the next year and circumscribe all other near- or mid-term objectives he now has or may set for himself.

5. An important corollary to maintaining control has been Jaruzelski's consolidation of his position within the leadership. He has displayed more bureaucratic savvy than we earlier attributed to him. Recently, he maneuvered to remove some hardline opponents (particularly his reputed rival, Politburo member, and now Foreign Minister, Olszowski), as well as a few relatively liberal party figures from the Secretariat, in a move that was clearly intended to placate Moscow. He has continued to place military figures loyal to him in key administrative and party positions as part of the process of expanding his still narrow power base and of combating corruption and incompetence.

6. Jaruzelski's initial hope, as expressed in his December speeches, seems to have been that the Polish people, even including some Solidarity leaders, would accept the necessity and fact of martial law and come to terms with the regime. That has not happened, and Jaruzelski now has little choice—short of a policy reversal—but to hope that time is on his side and that eventually economic prospects will improve enough to

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create the basis of some acceptable, if grudging, *modus vivendi* with Polish society. He apparently calculates that the discipline of martial law together with the significantly lowered popular expectation will continue to blunt Solidarity plans to turn public sympathy into mass action.

7. In the meantime, Jaruzelski will continue to dispose of those parts of martial law that he no longer needs and to promise more concessions if society at large maintains the discipline he wants. In this way, he hopes to minimize the risks of being challenged by a resurgent underground movement, to split the opposition, and to coax Western governments into lifting or easing their economic sanctions and Western bankers into rescheduling Poland's debts. At the same time, he will not hesitate to reimpose measures that had been lifted earlier, using each incident as an object lesson that resistance is not only futile but also counterproductive.

8. Jaruzelski's moves in late July and early August were a good illustration of this dual-track approach. In an eagerly awaited speech on 21 July, he announced the lifting of the curfew, the easing of restrictions on internal travel and communications, and the release of over 1,200 internees, some on probation. He did not release Solidarity's national leaders and advisers and hundreds of political dissidents. He also did not parole the several thousand people sentenced to jail terms for martial law offenses since December 1981—meaning that the number of people deprived of freedom has not changed materially since December. He did not offer any prospects for meaningful compromise. At the same time, the government continued to detain suspected resisters, to manhandle peaceful demonstrators, and, when the disappointment over Jaruzelski's speech produced increased resistance activity, to re-arrest or reintern some people.

9. Jaruzelski is likely to continue to show a measure of restraint in the treatment of martial law violators to cultivate the view that his regime is preferable to any alternative. Although a number of suspected resistance leaders have received terms of up to 10 years, the courts have not, to the dismay of the more hardline members of the officialdom, applied the full force of law in every case. Jaruzelski's flexibility and sensitivity to appearance was behind his publicly expressed hope in mid-July to end martial law by the end of the year. The catch was that he would only do so if granted

emergency powers by the Parliament, that is, martial law would continue under another name.

10. Our assessment of the regime's economic reform policy is unchanged. The regime has taken some reform measures, but these have been limited and often subordinated to central programs which allocate resources from the top. Jaruzelski has repeatedly talked about the need for some kind of economic reform but seems unwilling to permit major moves to decentralize decisionmaking because of his desire to maintain control. Although enterprises have been given more flexibility to make decisions on production, employment, and investment, they have continued to be hampered by shortages and by the existence of inviolable priority sectors which have first claim on resources. Jaruzelski has blamed enterprises for not using those new freedoms to raise labor productivity, cut material costs, and discharge unneeded workers. Reform advocates, however, have complained that bureaucratic resistance to change remains strong. Consequently most of the economy will probably continue to be tightly run by martial law plenipotentiaries following centrally determined production plans.

11. In March we estimated that Jaruzelski would continue to follow policies that are generally to Moscow's liking. He has increasingly lashed out at the United States and, to a lesser extent, its Western allies for maintaining sanctions. By blaming the West for Poland's difficulties, he evidently hopes to garner a measure of sympathy from the public. Thus far, however, there is little evidence to indicate that he has gained appreciable support. Ironically, the regime's anti-US propaganda may have sowed the seeds of some false assumptions about the sanctions. There are some indications that many in the economic establishment anticipate a sudden and significant turn for the better when the sanctions are lifted. In fact, this is not likely.

B. The Other Actors on the Domestic Scene

The Society

12. Polish society remains opposed to martial law but it is not ready, at least so far, to mount a frontal challenge to martial law and Jaruzelski. The reasons are several. A feeling of exhaustion had set in before 13 December which the shock effect of martial law reinforced. Most importantly, a substantial portion of the population has been intimidated by the regime.

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Not only is there a good prospect of being imprisoned for dissident activities, but the regime's policy of firing dissident employees has dampened opposition. The Church's appeals for moderation and against violence have also had a calming effect. Finally, with Walesa in internment, the Polish society today seems to be without a charismatic leader who might have a chance to rekindle the spirit of resistance and translate it into united active opposition.

13. This is not to say that tension within society is not high or that Poles in large numbers could not be galvanized to take action. Indeed, active popular opposition could mount and consequently increase the possibility of demonstrations and violence in the coming months. In anticipation the regime has toughened its rhetoric and has taken precautionary measures. Its sense of insecurity also explains why Jaruzelski would or could not go further in relaxing martial law in July and why the authorities feel they cannot afford the risks of releasing Walesa and the rest of the union leaders.

14. The extent and nature of the demonstrations depend predominantly on the mood of the Polish workers, especially in the larger factories and shipyards. Our ability to gauge their attitudes is limited by the impossibility of estimating how unforeseeable events could turn quiet frustration into active opposition. Consequently, we may not be in the position to predict much in advance if and when their present mood of passive resistance turned to one of open militancy.

15. The absence of overt opposition by workers does not mean compliance with governmental wishes. Absenteeism and slipshod work continue to affect economic performance and clearly worry the regime—so much so that the press has implicitly admitted that more workdays are being lost to absenteeism now than were lost to strikes in the heyday of Solidarity. This continued passive resistance, in the long term, could bring even more pressure on the government than demonstrations against which brute force can be used effectively.

Solidarity

16. As stated in March, Solidarity as a legally recognized, truly independent national trade union organization is dead. But the intervening months, and

most recently the disturbances on 31 August, have shown that Solidarity as an opposition force—even if not legally recognized—is alive. It is likely to continue both as a repository of widely shared national aspirations as well as an organization whose surviving or rebuilt infrastructure has been forced to operate underground. This circumstance has made it difficult to size up its nature, extent, and strength. But it has yet to demonstrate its ability to mobilize its former mass membership on a scale that could force upon Jaruzelski the choice of negotiating or resorting to use of the military.

17. After some false starts, the organization of active nationwide underground resistance has been assumed by a Temporary Coordinating Commission (TKK). It announced its existence on the clandestine Radio Solidarity on 22 April, when its four original members were said to have met at a secret location to coordinate the union's underground activity until its elected national leaders are released from internment. All four are former regional Solidarity leaders and represent Warsaw (Bujak), Gdansk (Lis, who is also former national vice president), Wroclaw (Frasyniuk), and Krakow (Hardek).

18. TKK has apparently been able to maintain some contact with the rank-and-file members, especially in larger factories, through couriers, underground publications, and Radio Solidarity. TKK has developed some ability to gauge worker sentiment and coordinate work stoppages and other forms of protests. Nevertheless, we suspect some protest activity may have been either spontaneous expressions of opposition or the work of numerous smaller and more radical fringe organizations (for example, the Committee for National Defense) or of what is left of the now banned National Student Organization. There have also been persistent rumors that some of the protests were the result of deliberate provocation by the security forces designed to decimate the ranks of union activists.

19. We do not have solid information on the extent to which the union infrastructure has survived or has been rebuilt. There are indications that, in a number of regions like Gdansk and Wroclaw, the union organization functions as a network of five-member clandestine cells linking large enterprises. The underground Solidarity organization is clearly handicapped by lack of funds (the union's assets were seized by the authorities), by slow and cumbersome means of communica-

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tion among the various units, by the fact that many of the more experienced activists have either been interned or imprisoned for martial law violations, and by the need to maintain extreme vigilance against infiltration by the security police. Despite the union's best efforts, it is doubtful that many of its activities escape detection by the security organs for a very long time. They may in fact be purposely leaving some organizers at large in order to monitor underground activities. The success of the regime's move against Solidarity in December 1981 shows that the security apparatus had maintained its efficiency even when operating in the relatively open political environment of the 1980-81 period.

20. Because of these operating restraints and internal disputes, a visible TKK strategy for challenging the regime has so far not yet emerged. There is every reason to believe that the overwhelming majority of the 10-million-strong membership remains sympathetic to the union and its ideals. But at least so far, the bulk of the blue-collar workers have generally opted for passive resistance as an expression of opposition in part because they believe street demonstrations to be counterproductive.

21. There are two reasons why the underground appeals have not attracted as much support as the union's former membership might have suggested. First, the industrial workers lined up behind the strikes and the union in 1980-81 because they believed they could extract significant wage and other economic concessions from the regime. They gradually came to realize that most of the wage increases were not covered by consumer goods and that future strikes for economic benefits would be meaningless.

22. Second, the occupational strike—the union's principal weapon—has been rendered very difficult to use because of fear of violent retaliation by the authorities and divisions within the TKK. There is considerable dispute both within TKK as well as between it and some of the interned Solidarity leaders and advisers over whether or not to call a general strike. The latter have for some time been advocating the need to prepare for a general strike, regardless of the consequences. TKK's drift toward a possible general strike has been slow and hampered by the view that the underground should limit itself to peaceful demonstrations in trying to pressure the regime into resuming dialogue, lifting the suspension on Solidarity's activity,

and freeing its interned leaders. Moreover, the TKK recognizes that a general strike would certainly incur a violent response from the security organs and would not automatically result in government concessions. Additionally, TKK leaders apparently are motivated by the belief that, so long as Solidarity's charter is suspended and not formally revoked, the underground should not provide the authorities with the excuse to ban the union forever. Jaruzelski and some of his more pragmatic advisers have apparently been aware of this sentiment and that is probably why the regime has refrained from delegitimizing the union.

23. The disturbances that took place throughout the country on 31 August were comparable to those in early May. Although all the returns are not yet in, clearly the demonstrations did not exceed the ability of the security forces.

24. Solidarity's showing on 31 August probably failed to convince Jaruzelski of the need for compromise. The leaders of Solidarity and the regime will now be debating future tactics, and hardliners on both sides may now argue for more aggressive action.

25. The union's leaders will cite the turnout of demonstrators against overwhelming odds as a moral victory. The regime has claimed that 65,000 people took part, 4,050 persons were detained, three demonstrators were killed and 63 injured, and 148 policemen were injured. But Solidarity has paid a high price in the two weeks of demonstrations:

- The authorities seized underground printing presses and reportedly arrested scores responsible for underground literature. The founder of Radio Solidarity was also arrested.
- Many activists were presumably spotted in connection with the demonstrations and will be apprehended.

26. Solidarity leaders will be under pressure to come up with more effective ways to force concessions from the regime. Their prospects are not bright. For the next few months, the union will have to concentrate on creating a structure less vulnerable to penetration by the security services. Radicals probably will want to keep the heat on. Some may press for more violent forms of resistance. Although there has been no clear-cut trend toward violence thus far, molotov cocktails have now been used for the first time. And

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the security services have shown they are not reluctant to use their weapons.

27. The demonstrations probably did nothing to shake Jaruzelski's conviction that time is on his side and that he can eventually wear down Solidarity's will to resist. He may be pressed by the security services to take an even tougher approach to prevent future demonstrations. They may encourage him to arrest more underground activists and possibly even to dissolve Solidarity altogether.

28. Although the short-term outlook for the union is dim, continued popular dissatisfaction will keep alive its spirit and the possibility for more unpredictable, spontaneous demonstrations. The demonstrations thus far have been sufficiently impressive that the regime seems certain to continue its repressive activities. If the direct and open challenges to his rule fade away, Jaruzelski may well improve the cosmetics of martial law (possibly even replacing it with less odious emergency powers) but is unlikely to change its substance.

29. The prospects are for a continuation of a drawn-out war of attrition. The regime may intensify its plans for launching a new trade union movement. It would, at best, be composed of nominally autonomous unions organized along branch and professional lines in factories but without any territorial structure such as Solidarity had. From the regime's standpoint, however, it could create even greater division in the TKK and simultaneously have international cosmetic appeal. But it would not mean the end of Solidarity as it has come to exist since the imposition of martial law.

The Catholic Church

30. Under martial law the Church has retained its traditional role as broker between the regime and society. Its official position has been largely determined by the view, as articulated by Archbishop-Primate Glemp, that the Jaruzelski regime is preferable to any likely alternative and that violence therefore should be avoided to protect society and the country from greater peril. The Church's behavior has also been motivated by its desire to preserve the concessions won for it largely by Solidarity in the past two years.

31. The Catholic Church occupies a special place in Jaruzelski's designs, and his attitude toward it probably illustrates his willingness to compromise. Recogniz-

ing the Church's moral authority as well as its enhanced political influence now that Solidarity has been forced underground, Jaruzelski has not only exempted the Church from the strictures of martial law but also left intact most of the gains it made after August 1980. Jaruzelski both appreciates and wants to exploit the important role the Church can play in any attempt at national reconciliation. He may also be conscious of the inadvisability of taking on two enemies at one time, a consideration he probably used in resisting hardline pressure to trim the Church's prerogatives. For now, the destruction of Solidarity remains his main objective.

32. Jaruzelski probably has had to defend his decision to exclude the Church from martial law restrictions in the face of criticism from hardliners. The latter frequently have argued that the Church has protected fugitive Solidarity leaders and activists, assisted in putting out clandestine publications, and allowed church services to become staging grounds for protests. On the other hand, the Episcopate, especially Glemp, has remained steadfastly opposed—publicly at times—to Western sanctions, arguing that the nation and the economy were exhausted by the prolonged crisis and that lifting them would benefit the people and the country more than the regime. (Pope John Paul II shared this view originally but later changed his position when he became aware of the difficulties the sanctions were causing the regime.)

33. In contrast to his initial protests against martial law in open support for restoration of Solidarity, Glemp in recent months has become more reticent. What backing Solidarity has received from the Church has mostly come from members of the lower clergy and several members of the Episcopate. The latter have at times spoken in highly critical tones of what they termed Glemp's weak leadership, a sentiment that is almost certainly shared by many within the hierarchy and Solidarity. The criticism has thus far been muted in large part in order to protect unity. Nevertheless, we have heard of instances when some clergymen have gone so far as to refuse to read Glemp's pastoral letters from the pulpits.

34. Pope John Paul II has also reportedly been less than satisfied with Glemp's inability to stand up to the regime more forcefully. But for the sake of Church unity, the Pope, too, has acquiesced in the role the Church has played under Glemp in trying to calm

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passions. Apparently similar considerations also made him agree to postpone his planned trip to Poland until some time next year. We do not anticipate a significant change in church-state relations in the coming months. Despite signs of growing apprehension about Glemp's ineffectual leadership, the Church officials will continue to use their periodic contacts with the regime to press for the release of internees, amnesty for those arrested and imprisoned, and for lifting martial law. In fact, these contacts, which have taken place largely behind the scenes, will probably constitute the only dialogue that can be expected between the Jaruzelski regime and society in the foreseeable future.

The Army and the Security Forces

35. The period since last December has shown a pattern of uneasy calm punctuated by periodic civil disturbances. Since protests thus far have been contained by relying on regular police and motorized security forces (ZOMO), Jaruzelski has been spared the need to test regular Army units in direct confrontation with the workers.

36. There is evidence that the Army's standing with the populace has slipped. For example, the number of applicants for officers' schools has evidently diminished to such an extent that the Army has dropped competitive examinations and is apparently accepting almost all candidates. The depth of this decline in popular acceptance and its long-term consequences, if any, are not clear.

37. Paradoxically, the fact that Jaruzelski has made only limited use of the Army has made him more reliant on the security forces over which he has less control. Despite the fact that the Ministry of Interior is under General Kiszczak, who is reputed to be loyal to Jaruzelski, his predecessor and now Politburo member Milewski serves as the party's overseer of the entire security apparatus. Apparently it is Milewski through whom the Soviets have gained increased influence over the past two years. This may be one reason why Jaruzelski has not been able to remove Milewski from the Politburo as he had allegedly intended.

38. Aside from the security apparatus, Jaruzelski probably also has to take into account the views of hardliners on the Military Council of National Salvation. Although Jaruzelski remains in overall charge of

the council, members such as Generals Molczyk and Urbanowicz probably closely reflect Moscow's views during deliberations over such sensitive matters as the pace of relaxation of martial law, the disposition of internees, relations with the Church, and the now postponed papal visit.

The Party

39. Jaruzelski imposed martial law in order to protect what remained of the traditional system of Communist rule when it became clear that the party by itself was incapable of doing so. In the past eight months, the party has failed to make any headway toward recovery and there are no prospects that it will be able to reassert its leading role. This is due primarily to its continued total rejection by the public as well as to Jaruzelski's own reservations about it. The party has been reduced to little more than its professional cadres, most of whom are careerists who are satisfied with the blows dealt to Solidarity, but resent their own loss of stature and fear for their future.

40. We anticipate that Jaruzelski will continue to appoint his own men, mostly military, to key party positions. As long as the traditional party has not been revived, which at best will take years, its careerists will not be able to resume their previously unchallenged preeminent roles. The question of whether the military will turn power over to the civilian sector is, therefore, largely meaningless. The more interesting question, which cannot yet be answered, is what will be the long-range effect on the functioning and outlook of the party of the appointments to party positions of men who rose through military rather than party channels.

41. Taken as a whole, then, the disposition and relative strengths of the key actors on the Polish scene have not been altered appreciably since March. Although Jaruzelski has made some progress toward consolidating his personal position, the party is still in disarray. His mainstay remains the Army, but he knows he cannot use it without risk and, therefore, continues to rely on the security police as the chief enforcer of martial law. The Church by appealing for moderation has helped maintain an uneasy calm, but its appeals for dialogue, most forcefully expressed in its April theses, have not been answered by the regime. Solidarity still represents the aspirations of society. The impasse between society and the regime continues.

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III. THE ECONOMY

Domestic Aspects

42. Economic performance during the next year is likely to remain at the level of the mid-1970s in the absence of substantial new Western credits or massive aid from the USSR. Neither seems likely.

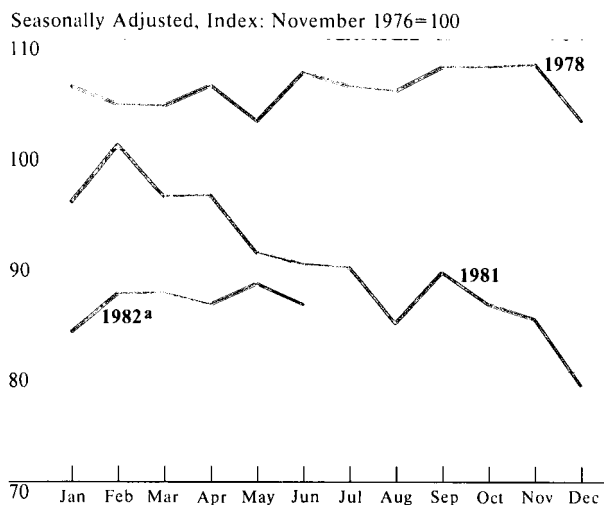
43. The government has stopped the decline in industrial production (see chart), but there is little prospect of much near-term growth. Mining output, which is only marginally dependent on imports from the West, has increased sharply this year because of compulsory Saturday work. But there will be little further growth without a longer workweek—an unlikely prospect. Manufactured goods industries will continue to be constrained by import shortages caused by the lack of Western credit and the need to hold down imports to pay some debt. The regime also faces growing labor problems, including increased absenteeism and skilled-labor shortages, as hundreds of thousands of older workers have opted for early retirement. The regime's drastic investment cuts—28 percent in the first half of 1982 and 55 percent since

1978—may also hold down near-term output although the major impact will come in future years.

44. The agricultural sector will be unable to meet the needs of the country despite an estimated, above-average harvest of 20-21 million tons. The regime plans to double grain procurements from private farmers to make up for some of the at least 3-million-ton gap resulting from reduced imports. The government thus far has refused, however, to increase procurement prices because it wants to include farmers in the austerity program and fears farmers might sell smaller quantities of higher priced grain and keep more to feed livestock. Instead, the government is considering a number of coercive programs including the possible imposition of compulsory deliveries. The regime is reluctant, however, to implement such a draconian measure because it realizes that farmers might react by cutting back production, thus drawing the government into a confrontation.

45. Polish consumers face some further deterioration in living standards during the rest of 1982 and have little hope of much rebound in the next several years. Consumers have already been hit hard: in the first six months of this year the cost of living climbed 104 percent and workers' incomes increased only 58 percent. Supplies of goods on the retail market declined by 13 percent during the first half of this year. Consequently some consumers cannot afford meat and other basic foodstuffs, while high income earners face shortages of manufactured goods. Consumer frustrations will continue to feed popular unhappiness with the martial law regime.

Poland: Monthly Industrial Production



International Aspects

46. The regime's effort to turn to the East to make up for the lack of Western imports will probably bring little payoff in the next 12 months. CEMA countries do not have many of the goods needed by Poland and, in any case, have their own economic problems that will continue to limit their assistance to Warsaw. The USSR has reduced its support this year by permitting Poland to run a trade deficit (projected to reach \$1.7 billion) of only some two-thirds of the 1981 level. The Soviets apparently have replaced only some \$150-200 million of traditional Polish imports from the West. Although this will ease some bottlenecks, it will not boost output significantly. Moreover, the Poles must repay the Soviets with 85 percent of the additional production derived from these materials.

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47. For the foreseeable future, the "debt noose" will block imports which are badly needed for economic recovery. Banks are unwilling to extend new credits for imports because of Warsaw's inability to service past loans, and most Western governments have stopped credit guarantees since martial law. Without credits, Poland's objective is to run a surplus that is small enough to allow imports of vital goods from the West and to pay the minimum debt service necessary to prevent formal default.

48. Poland has covered the interest on its 1981 rescheduling agreements, but arrears on 1982 obligations—principal and interest—are at least \$6 billion through August. Major Western banks and the Poles recently agreed on terms to reschedule \$2.3 billion in 1982 obligations, but the Poles may not be able to make the payments called for in the agreement. Payment to banks will have to accelerate considerably to cover the estimated \$330 million which is due 20 October. A likely scenario is a repetition of the 1981 experience, when Polish failure to meet payment deadlines led to several postponements of the signature of the agreement. Poland is likely to remain in technical default because of its inability to pay unrescheduled obligations. The banks' refusal to declare default despite arrears, delays, and broken agreements testifies to the creditors' desire to avoid or delay as long as possible the writing off of Polish loans.

49. Western governments continue to refuse to reschedule obligations due them in 1982, although several West European countries are pressing to open debt relief talks if only to improve their chances for receiving Polish payments. It is unlikely, however, that the governments would receive significant payments. Poland probably would request total debt relief, and may not be able to pay obligations which would not be rescheduled. The Poles are likely to place greater priority in paying banks because of the recent agreement and because any one of the multitude of the creditor banks could trigger default.

50. The much vaunted policy of reorientation of economic relations toward the East notwithstanding, Poland probably would respond to a lifting of sanctions with a renewed request to Western governments for a massive aid package including total debt relief and perhaps several billion dollars in concessionary credits and guarantees to finance imports of grain, food, spare parts, and industrial raw materials. Such a

package could provide a major boost to the Polish economy, but only if it were large enough to cover unrescheduled debt service. In 1981, for example, Western governments provided some \$4 billion in credit guarantees, which freed a similar amount of export earnings for debt service rather than resulting in an increase in imports. The prospects seem poor for a favorable response from the West. Even before martial law, Western governments were rejecting the bulk of Warsaw's aid requests because of budget constraints, the fluid political situation in Poland, the ineffectiveness of Poland's economic policy, and the uncertain prospects for repayment. These factors probably would continue to dominate their attitudes toward a package for Poland.

IV. THE USSR

51. Although eight months of martial law have not brought the Soviet headache over Poland to an end, General Jaruzelski has performed a valuable service for the Kremlin by bringing a measure of stability to Poland and relieving the Soviets of the unpleasant prospect of using their own arms to work their will. With his unsuccessful attempts to restore the Polish economy to health—despite scattered signs of improvement—and with his failure to revive the Polish party of which he is formally head, Jaruzelski may have disappointed the Soviets. But as a result of his action last December, Moscow now confronts a situation that, if still unpredictable, is seen as manageable. The Soviet leadership thus has concluded that Jaruzelski is currently the Polish leader best situated—as chief of the Army as well as the party—and temperamentally best suited to protect their interests in Poland. He is also a known quantity in Soviet political and military circles—a major factor in his favor.

52. In strategic political terms, Jaruzelski clearly has little independence and must always take the Soviet Union into account. He appreciates the need to coordinate his general line with Moscow and to retain its support for his policies. Whatever his own innermost predilections, he must have the implicit backing of Soviet arms in order to govern.

53. As the man who implemented martial law—and who has thus far made it stick—Jaruzelski has a degree of tactical independence from the Soviets. Aside from the fact that it is hard to imagine who else could better serve Moscow's interest in Poland at this

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time, giving Jaruzelski a bit of tether—or at least the appearance of it—may serve Soviet interests to the extent it fosters perceptions in Poland and the West that he is a genuine national leader and that Moscow is not directly ordering developments within Poland. Moscow may also recognize that it simply makes operational sense to give Jaruzelski the tactical flexibility he needs to deal quickly and decisively with day-to-day issues.

54. Moscow has not hesitated to proffer its fraternal advice. It campaigned publicly and is believed to have argued strongly in private against allowing the Pope to visit Poland this year—advice which Jaruzelski evidently took into account when he postponed the trip. It continues to urge Jaruzelski to rout counterrevolution and may thereby be signaling a measure of uncertainty about the more flexible aspects of his policies as well as a feeling that his relaxation of martial law was premature and may backfire. Jaruzelski has visited the Soviet Union twice this year to confer with Soviet leaders, and although there were some hints of possible frictions (also perceptible when Jaruzelski met with Premier Tikhonov at the CEMA Summit in Budapest), the process of close consultation between Jaruzelski and the Kremlin seems to be continuing.

55. In the final analysis, the question of how much latitude the Soviets are willing to give Jaruzelski will be closely tied to their perception of how well he is handling the situation in Poland.

56. So far as we know, no potential successor to Brezhnev holds a view of the Polish situation different from his. The Soviet succession thus is unlikely to bring a shift in Moscow's policy toward Poland, especially in the short term. Of course, as indicated in SNIE 12.6-82, if an abrupt turn of events in Poland coincided with intense political maneuvering in Moscow, the interaction of the two could significantly influence the Soviet succession, Moscow's policy toward Poland, and naturally the situation in Poland. In the meantime, however, Moscow's attitude toward both Jaruzelski and Poland will be one of watchful concern.

V. PROSPECTS

57. The outlook is for continued political stalemate, with Jaruzelski pursuing a cautious policy designed to wear down domestic and external opposition. This precludes meeting the three criteria for lifting the sanctions, as defined by the United States and its allies, but Jaruzelski will continue, whenever internal conditions permit it, to make periodic gestures toward a gradual relaxation of martial law such as he has made so far.

58. This stalemate could be broken by the intrusion of essentially unpredictable events into the Polish political drama as a consequence of spontaneous events. The appearance of political terrorism, absent so far, could spark retaliation from the security services that could quickly and dramatically escalate the crisis. An ill-considered action by an overconfident regime could, as it did in 1970, 1976, and 1980, spark a strong social reaction.

59. Solidarity's leadership is likely to remain interned for as long as the regime considers this isolation necessary for its own security. The future of the union, too, is unlikely to be resolved in a manner that its leaders, both in the underground or in internment, can or are likely to accept. This, in turn, is bound to keep the underground resistance movement alive, if not thriving.

60. The economic situation will show little, if any, improvements, a circumstance whose impact on the population is difficult to predict. Despite the low expectations among the populace, consumer frustration could lead to a renewal of the strikes on a scale greater than we have witnessed so far this year. If this happened, it could lead to Jaruzelski's fall. At this point, however, we judge this to be an outside possibility. More likely, Polish society is entering a period of apathy and resignation.

61. In sum, Jaruzelski is most likely to continue his present policies, which will result, at best, in his continuing to control a dispirited society with only moderate use of outright force.

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